

## TAX CODE OVERVIEW

The new Tax Code of Georgia was adopted on 22<sup>nd</sup> of December, 2004 and came into force from January 1, 2005. The adopted law is comprised of two books: general and special provisions.

*General provisions* specify major terms and definitions used in the tax code, rights and responsibilities of the taxpayers and tax authorities, tax administration and enforcement rules and dispute resolution mechanisms.

The examples of innovations introduced in the general provisions of the tax code are given below:

- 1) Strict tax enforcements measures, tax examination and control procedures such as alter ego ownership and comprehensive invigilation procedures;
- 2) Possibility of extension for payment of tax for 3 or 6 months;
- 3) Reduction of penalty from 0.15 percent to 0.07%;
- 4) New mechanism of dispute resolution - tax arbitration;<sup>1</sup>
- 5) Taxpayer's right to offset overpaid amounts to the budget against other tax liabilities.

*Special provisions* regulate particular taxes. 7 taxes out of 21 of the 1997 tax code<sup>2</sup> are presented in the new tax code.<sup>3</sup> These taxes are:

1. Income tax
2. Profits tax
3. Social tax
4. VAT
5. Excise
6. Property tax
7. Gambling tax

### Income Tax

In lieu of progressive income tax rate scale (from 12% to 20%), 12% flat rate is introduced in the new tax code. The sole proprietors not using hired labor and complied with other tax code requirements as well as persons involved in agriculture with gross income less than GEL 100.000 are exempt from the income tax.

---

<sup>1</sup> The tax arbitration provisions are presented with derogations from the recognized arbitration principles, such as prohibition of settlement and unilateral decision of taxpayer to apply to the arbitration.

<sup>2</sup> The Tax Code effective until January 1, 2005 was adopted on June 13, 1997

<sup>3</sup> Although the number of taxes and certain tax rates were reduced, they were partially compensated by incorporation of number of taxes into the property tax and increase of excise tax rates.

### Profits Tax

The 20% tax rate was not altered. Certain profits tax administration provisions were changed, for instance:

- 1) In contrast to the 1997 tax code, if expected income (profit) in the current tax year will be at least 50 percent less than in the previous year, taxpayer is authorized to reduce (not to pay at all) quarterly payments.
- 2) Some changes were made to the depreciation rules.

### VAT

The tax rate was reduced from 20% to 18%. However, the number of tax exemptions was significantly reduced. The time for taxable transaction is determined based on the accrual method instead of combined cash/accrual basis foreseen by the 1997 Tax Code. Consequently, the time for a taxable transaction shall be considered: a) the moment of a supply of goods (services); b) in case of a supply of goods involving shipment – the moment of shipment.

### Excise

The circle of taxable transactions has been expanded. In addition, significant increase of excise tax rates can be observed. For instance, excise rate on sparkling wine was raised by 40%, beer by - 67%, vodka - 50%, some other spirits - 25%, imported filtered cigarettes by 125%, imported unfiltered cigarettes by 25%<sup>4</sup>, domestically produced unfiltered cigarettes by 50% and filtered ones by 180%. The tax rates on some oil distillates were increased by 25 % while on others by 50%. The tax rate on brand new motor vehicles was raised by 50%<sup>5</sup>. However, the differences in rates are reduced as motor vehicle' age increases.

### Social Tax

The tax rate of 31% was reduced to 20%.

Unlike provisions given in the 1997 tax code, no 2% of withholding social tax is levied.

### Property Tax

New provisions on property tax include individual property tax, property tax of enterprises, tax on motor vehicles, yachts (motor boats), planes, helicopters and tax on agricultural and non-agricultural land.

---

<sup>4</sup> The new excise tax rate on imported tobacco products was compared to the fixed tax comprised of customs duty and excise tax.

<sup>5</sup> The new excise tax rate on motor vehicles was compared to the fixed tax comprised of VAT and excise tax.

The table below summarizes law provisions on objects of taxation and tax rates of the state and local taxes foreseen by the new tax code.

TAX	OBJECT OF TAXATION	TAX RATES
<b>STATE TAXES</b>		
<b>Income Tax</b>	The taxable income determined as the difference between gross income for calendar year and the deductions defined by the Tax Code.	<b>12%</b>
<b>Profits Tax</b>	The base is the profit, defined as the difference between gross income and the deductions stipulated by the Tax Code.	<b>20%</b>
<b>Social Tax</b>	Social security levy is imposed on wages, compensation or profit earned for rendered services and income from economic activity <sup>6</sup>	<b>20%</b>
<b>Value Added Tax</b>	Value added created in the process of the production and circulation of goods and services; customs value (included customs fee, customs duty, excise) of all taxable goods imported into the territory of Georgia.	The general rate is <b>18%</b> <sup>7</sup> <b>Zero rate</b> applies to: a) Export of goods; b) Services related to international air transportation of passengers and goods as well as aviation fuel supplied on board for international flights; c) The supply of gold to the National Bank of Georgia; d) Supply/import of goods (service) intended for official use by diplomatic representative offices; e) Rendering of tourist service; f) Rendering repair services of capital assets.
<b>Excise</b>	The import of excisable goods into the territory of Georgia, the supply of excisable goods, removal of excisable goods from warehouse of an enterprise; transfer of excisable goods produced in Georgia from customer's raw material to a customer; use of excisable goods of own production for producing non-excisable goods and export of ferrous and/or non-ferrous scrap metal.	Tax rates are differentiated based on types of excisable goods, such as alcoholic beverages, tobacco products, passenger motor vehicles, oil distillates and other oil products, gas, ferrous and/or non-ferrous scrap metal, etc. <sup>8</sup> <b>Zero rate</b> applies to export of excise goods.
<b>LOCAL TAXES<sup>9</sup></b>		
<b>Property Tax</b>	a) Property used for economic activities; b) Immovable property owned by physical persons; c) Passenger motor vehicles owned by physical persons;	Tax rates are differentiated based on types of property. <ul style="list-style-type: none"><li>• <b>Up to 1%</b> of property value<sup>10</sup> applies to property used for economic activities.</li><li>• Tax rate for immovable property (section b) is differentiated based on family annual</li></ul>

<sup>6</sup> No withholding social tax is levied

<sup>7</sup> Until July, 2005 VAT rate is 20%

<sup>8</sup> The excise tax rates are fixed ones in contrast to *ad valorem* rates applied to some excise goods in the 1997 tax code.

<sup>9</sup> The Tax Code establishes minimum and maximum ceilings for the local tax rates. Local self-government and government authorities are authorized to introduce a local tax foreseen by the tax code and determine tax rate within the limits established by the tax code.

<sup>10</sup> The value of a taxable property is an average annual residual value of assets (fixed assets, uninstalled equipment, incomplete capital investments and intangible assets) recorded in the balance-sheet and shall be computed pursuant to the average value of the assets at the beginning and at the end of a calendar year.

	<p>d) Yachts (motor boats), planes and helicopters owned by physical persons;</p> <p>e) Agricultural and non-agricultural land owned by physical and/or legal persons and state-owned land used by physical and/or legal persons.</p>	<p>income:</p> <p>a) For the families with annual income from GEL 40.000 to GEL 60.000 – <b>0.05% - 0.2%</b> of market price;</p> <p>b) For the families with annual income from GEL 60.000 to GEL 100.000 – <b>0.2% - 0.4%</b> of market price;</p> <p>c) For the families with annual income more than 100.000 – <b>0.4% - 0.8%</b> of market price.</p> <ul style="list-style-type: none"> <li>• Tax rate for passenger motor vehicles (section c) is differentiated according to the engine capacity and age of motor vehicle and varies <b>from GEL 5 to GEL 300</b>.</li> <li>• Tax rate for yachts (motor boats), planes and helicopters (section d) are defined in accordance with a type and engine capacity.</li> <li>• For agricultural land (section e), a base tax rate per 1 sq. meter is differentiated according to administrative units and land quality.</li> <li>• Base tax rate payable on non-agricultural land (section e) is <b>up to GEL 0.24</b>.<sup>11</sup></li> </ul>
<b>Gambling Tax</b>	<p>a) Income earned from sale of lottery tickets; b) Gambling tables and machines used for gambling purposes; c) Totalizators, bingos and bookmakers (specially organised places where bets are received machine or/and gains are paid by a cashier or /and special machine or other means); d) Incentive lottery prize fund; e) Systemic-electronic games.</p>	<p>Tax rates are differentiated based on types of gambling business.</p> <p>a) for lottery organizers- no more than <b>20%</b> of proceeds from sale of lottery tickets;</p> <p>b) for each gambling table in a casino- <b>GEL 5 000 -10 000</b> per month;</p> <p>c) for each gambling machine-<b>GEL 50 - 200</b> per month;</p> <p>d) for each totalizator, bingo and bookmaker – <b>GEL 300 - 600 GEL</b> per month;</p> <p>e) for each incentive lottery - <b>10%</b> of prize fund;</p> <p>f) for systemic-electronic gamble – <b>GEL 2000 - 10 000 GEL</b> per month.</p>

<sup>11</sup> The base tax rate shall be multiplied to the total area and territorial rate determined by the local self-governmental bodies according to the land location.